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SUBJECT: AMBASSADOR'S CALL ON CPV ECONOMIC CHAIRMAN

11. (SBU) SUMMARY: In a meeting with Ambassador, CPV economic czar Truong Tan Sang underscored the importance of the private sector and SOE reform in maintaining high growth rates and employment generation. He promised to privatize parts of Vietnam Airlines and to strengthen IPR enforcement. The Ambassador urged Sang to encourage the GVN to permit more activities by foreign banks, including EXIM, and to buy a US satellite. Sang was an unimpressive interlocutor, more eager to parry questions than engage in give-and-take or share any vision for Vietnam's economic future. END SUMMARY.

12. (U) Role: Ambassador, accompanied by ECON/C, called on Truong Tan Sang, Politburo member (#10 in rank) and Chairman of the CPV's Economic Commission of the Communist Party of Vietnam, on February 12. It was the Ambassador's first meeting with Sang, who had previously chaired the HCMC People's Committee. Sang described his Commission as responsible for trade policy, macroeconomic policy, and external economic relations, and added that he would appreciate assistance by the US with WTO accession negotiations (to which his commission sends a representative). Although his commission sets the long-term vision for Vietnam's economy, Sang did not comment on the Ambassador's description of some key difficult issues that such a vision would need to address.

13. (U) SOE reform: Sang recited the target 7.5% real GDP growth per year in the current five-year plan and asked whether the US had any advice about increasing the current 40% private sector contribution to GDP. The highest growth rate was in the foreign invested sector, he commented. The revised enterprise law had helped develop some small and medium-sized enterprises faster and he expressed a hope this trend would continue. At the same time, state sector reform was continuing. He emphasized that his commission must consider both the economic aspects and the socio-economic aspects of reform (i.e. employment effect). When reform leads to job creation, there is never opposition. In the first phase of reform, 6,000 SOEs of the original 12,000 were eliminated with no opposition, he claimed. By 2001 -- at the start of the second phase of SOE reform -- some 5000 SOEs remained. Unlike the first phase, this phase involves SOEs in both unimportant and important sectors. For next year, he predicted higher economic growth without dissatisfied voices. There are 1.5 million new workers annually and GVN strives to create 2 million new jobs for them and for those who are underemployed.

14. (U) Limits on investment: The Ambassador asked Sang to comment on sectors where foreign investment was forbidden. Sang noted that in the transportation sector, there was a great deal of private sector activity -- and few SOEs -- for taxis and trucks, while in marine transportation about 70% of activity was by SOEs. In civil aviation, Vietnam Airlines and Pacific Airlines were both operating. Pacific is a private stock firm, and in the future the GVN will privatize parts of Vietnam Airlines, he promised. In banking, there are 53 publicly traded banks and only about 30 private banks, and 1000 cooperatives currently operating. (Note: This was a rather incomplete answer.)

15. (U) Finance: Noting that financial sector reform was important in order to mobilize capital for Vietnam's future development, the Ambassador related that Eximbank was considering allowing a Vietnamese joint stock bank to make loans using Eximbank funds. According to Eximbank, two joint stock banks -- Sacom and Asia Commercial Bank -- might qualify. Sang noted that IFC sources had invested about \$3 million in each bank. (NOTE: According to IFC staff, they have invested \$5 million in ACB and \$4.5 million in Sacom, and could purchase additional shares in the future. END NOTE) The Ambassador pointed out that both Citibank and Hong Kong Shanghai Bank would like to invest significantly higher amounts in one or both banks, but were constrained from doing so because a foreign firm could not own more than 10% of the equity in a joint stock bank. Should these foreign firms be allowed to hold more equity, they intended to train staff and improve the technology of these banks.

16. (U) IPR: Difficulty with IPR enforcement might keep information technology investors away from Vietnam, the Ambassador warned. He asked whether Sang was concerned about this issue and had a plan to improve it. Sang claimed agreement by "both sides" on Intel's \$800 million investment in a HCMC software park, although the bird flu had stopped Intel officers from coming to Hanoi to finalize the deal. (NOTE: According to Intel Country Manager, Vietnam continues to be one of three countries -- along with India and Thailand -- under consideration for this project. There has been no final decision and no decision is expected for at least another year. END NOTE) Sang added that he was personally involved in this project. He stressed that he fully understood the importance of IPR protection to improve the investment climate for not only for SOEs, but also for private enterprises, both foreign and domestic. During his tenure in HCMC as Chair of the People's Committee, a multi-million dollar investment to produce CDs had failed because of imported pirated discs. As for how to improve enforcement, Sang said that he did not understand the law, but stressed that IPR was a problem in all countries and joked that to avoid the problem entirely one would probably have to locate in Singapore. He acknowledged that IPR enforcement was a weak point, but pledged that Vietnam would continue to strengthen it.

17. (U) BTA/WTO: Sang described the BTA was the first step towards normalizing trade relations, which had resulted in billions of dollars of increased trade for both sides, albeit in favor of Vietnam. Vietnam was currently striving to join the WTO, though there were some difficulties and problems. Noting that some forces in the US did not support developing trade relations with Vietnam, Sang said that he hoped that both sides could avoid difficulties in this area. He expressed a hope that US firms would keep investing in Vietnam. Although US investment in Vietnam was rising, it was still lower than from other Asian countries. Vietnam was working to improve transparency, he added.

18. (U) Buy US: Ambassador noted that the US and Vietnam were working together through technical assistance to help make the commercial law and regulations more attractive to investment. Currently there was a significant trade imbalance in favor of Vietnam. The purchase of Boeing aircraft had helped in 2003 and would again in 2004. Another good opportunity to improve the trade imbalance would be for Vietnam to buy a cutting edge U.S. communications satellite and launch from the sole U.S. firm in this procurement process. Sang acknowledged the trade imbalance in favor of Vietnam and said he hoped both sides would try to increase trade. Sang said that Vietnam was new to the market economy and wanted to learn from experts. He agreed to take the Ambassador's suggestions into consideration.

19. (SBU) Bio comment: Sang stuck to his script and showed little desire to engage in a meaningful dialogue even on his field. He parried questions well. If he has a vision for Vietnam's economic future, he chose not disclose it. Compared to other CPV economic types we have met, he was not very impressive.
BURGHARDT